

SENATE BILL 507

I1, I2

2lr2086
CF HB 533

By: **Senators Kelley, Glassman, Kittleman, Klausmeier, ~~and Pipkin~~ Pipkin, Middleton, Astle, Garagiola, Mathias, Muse, and Pugh**

Introduced and read first time: February 3, 2012

Assigned to: Finance

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: February 24, 2012

CHAPTER _____

1 AN ACT concerning

2 **Financial Institutions – Interest Payable on Escrow Accounts and Specific**
3 **Purpose Savings Accounts**

4 FOR the purpose of altering the interest rate payable by certain lending institutions
5 on escrow accounts created in connection with loans secured by a first mortgage
6 or first deed of trust on residential real property; requiring the interest rate to
7 be adjusted under certain circumstances; altering the interest rate payable by
8 certain banking institutions on interest bearing accounts instituted for a
9 specific purpose; repealing certain obsolete language; providing for the
10 application of this Act; and generally relating to rates of interest payable on
11 escrow accounts and savings accounts.

12 BY repealing and reenacting, with amendments,
13 Article – Commercial Law
14 Section 12–109 and 12–1026(b)
15 Annotated Code of Maryland
16 (2005 Replacement Volume and 2011 Supplement)

17 BY repealing and reenacting, without amendments,
18 Article – Commercial Law
19 Section 12–1026(a)
20 Annotated Code of Maryland
21 (2005 Replacement Volume and 2011 Supplement)

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 BY repealing and reenacting, with amendments,
2 Article – Financial Institutions
3 Section 5–302(b)
4 Annotated Code of Maryland
5 (2011 Replacement Volume and 2011 Supplement)

6 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
7 MARYLAND, That the Laws of Maryland read as follows:

8 **Article – Commercial Law**

9 12–109.

10 (a) (1) In this section the following words have the meanings indicated.

11 (2) “Lending institution” means a bank, savings bank, or savings and
12 loan association doing business in Maryland.

13 (3) “Escrow account” means an expense or escrow account which tends
14 to protect the security of a loan by the accumulation of funds for the payment of taxes,
15 insurance premiums, or other expenses.

16 (b) (1) [After May 31, 1974, a] **A** lending institution which lends money
17 secured by a first mortgage or first deed of trust on any interest in residential real
18 property and creates or is the assignee of an escrow account in connection with that
19 loan shall pay interest to the borrower on the funds in the escrow account at [the
20 greater of:

21 (i) A rate of 3 percent per annum simple interest; or

22 (ii) The rate of interest regularly paid by the lending institution
23 on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE**
24 **6–MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES**
25 **OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN “SELECTED**
26 **INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS DAY OF THE**
27 **CALENDAR YEAR.**

28 (2) Interest on these funds shall be:

29 (i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF**
30 **EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR,**
31 **AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

32 (ii) **Computed on the average monthly balance in the escrow**
33 **account; and**

1 [(ii) (III)] Paid annually to the borrower by crediting the escrow
2 account with the amount of interest due.

3 (3) The lending institution shall annually provide the borrower with a
4 statement of the escrow balance.

5 (c) The provisions of this section do not apply to a lending institution which
6 provides for the payment of taxes, insurance, or other expenses under the direct
7 reduction method by which these expenses, when paid by the lender, are added to the
8 outstanding principal balance of the loan.

9 (d) This section does not apply if the loan is purchased by an out-of-state
10 lender through the Federal National Mortgage Association, the Government National
11 Mortgage Association, or the Federal Home Loan Mortgage Corporation and the
12 out-of-state lender as a condition of purchase elects to service the loan. However, this
13 section shall apply if the out-of-state lender sells the loan to a Maryland lender or
14 places the loan with a Maryland lender for servicing.

15 12-1026.

16 (a) (1) In this section the following words have the meanings indicated.

17 (2) "Lending institution" means a bank, savings bank, or savings and
18 loan association doing business in Maryland.

19 (3) "Escrow account" means an expense or escrow account which tends
20 to protect the security of a loan by the accumulation of funds for the payment of taxes,
21 insurance premiums, or other expenses.

22 (b) (1) A lending institution that makes a loan to a consumer borrower
23 secured by a first mortgage or first deed of trust on residential real property and
24 creates or is the assignee of an escrow account in connection with that loan shall pay
25 interest to the consumer borrower on the funds in the escrow account at [the greater
26 of:

27 (i) A rate of 3 percent per annum simple interest; or

28 (ii) The rate of interest regularly paid by the lending institution
29 on regular passbook savings accounts] **AN ANNUAL RATE NOT LESS THAN THE**
30 **6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY TRADED CERTIFICATES**
31 **OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE IN "SELECTED**
32 **INTEREST RATES (DAILY) – H.15", AS OF THE FIRST BUSINESS DAY OF THE**
33 **CALENDAR YEAR.**

34 (2) Interest on these funds shall be:

1 (i) **ADJUSTED, IF APPLICABLE, AS OF THE FIRST DAY OF**
2 **EACH CALENDAR YEAR TO REFLECT THE RATE TO BE PAID DURING THAT YEAR,**
3 **AS DETERMINED UNDER PARAGRAPH (1) OF THIS SUBSECTION;**

4 (ii) **Computed on the average monthly balance in the escrow**
5 **account; and**

6 [(ii)] (iii) **Paid annually to the borrower by crediting the escrow**
7 **account with the amount of interest due.**

8 (3) **The lending institution shall annually provide the consumer**
9 **borrower with a statement of the escrow balance.**

10 (4) **The provisions of this subsection do not apply to a lending**
11 **institution that provides for the payment of taxes, insurance, or other expenses under**
12 **the direct reduction method by which these expenses, when paid by the lending**
13 **institution, are added to the outstanding principal balance of the loan.**

14 (5) (i) **This subsection does not apply if the loan:**

15 1. **Is purchased by an out-of-state lender through the**
16 **Federal National Mortgage Association, the Government National Mortgage**
17 **Association, or the Federal Home Loan Mortgage Corporation; and**

18 2. **The out-of-state lender elects to service the loan as a**
19 **condition of purchase.**

20 (ii) **Notwithstanding subparagraph (i) of this paragraph, this**
21 **subsection shall apply if the out-of-state lender:**

22 1. **Sells the loan to a Maryland lender; or**

23 2. **Places the loan with a Maryland lender for servicing.**

24 **Article – Financial Institutions**

25 5–302.

26 (b) **A banking institution shall pay [at least 3 percent annual] interest on**
27 **each interest bearing account that is instituted for a specific purpose, including**
28 **“Christmas” or “vacation” accounts, for a period of 1 year or less AT AN ANNUAL RATE**
29 **NOT LESS THAN THE 6-MONTH AVERAGE DEALER BID RATE ON NATIONALLY**
30 **TRADED CERTIFICATES OF DEPOSIT, AS PUBLISHED BY THE FEDERAL RESERVE**
31 **IN “SELECTED INTEREST RATES (DAILY) – H.15”, AS OF THE FIRST BUSINESS**
32 **DAY OF THE CALENDAR YEAR.**

1 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to
2 escrow accounts and savings accounts established on or after the effective date of this
3 Act.

4 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
5 June 1, 2012.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.